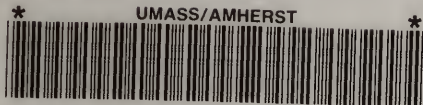


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SENATE No. 1568

The Commonwealth of Massachusetts

REPORT

of

HIS EXCELLENCY

THE GOVERNOR

Relative to

AN EARLY RETIREMENT INCENTIVE

PROGRAM FOR EMPLOYEES

OF THE COMMONWEALTH

**(under Section 89 of Chapter 6
of the Acts of 1991.)**

May 16, 1991.

912/249

The Commonwealth of Massachusetts



WILLIAM F. WELD
GOVERNOR

ARGEO PAUL CELLUCCI
LIEUTENANT-GOVERNOR

THE COMMONWEALTH OF MASSACHUSETTS

EXECUTIVE DEPARTMENT

STATE HOUSE • BOSTON 02133

May 15, 1991

To the Honorable Senate and House of Representatives:

Today, as directed by section 89 of Chapter 6 of the Acts of 1991, we are pleased to submit an Early Retirement Incentive Program for state employees. Since the passage of that act, the Administration has conducted an extensive analysis in order to assess the fiscal impact of an early retirement program. That analysis leads to two central conclusions. First, the cost impact in Fiscal 1992 is dependent on the timing of the program. The establishment of the program at the earliest possible date is crucial. Second, absent severe constraints on the replacement of retiring employees, any early retirement plan will result in added costs to the Commonwealth.

The program contains three separate incentives designed to appeal to three different groups of employees:

- (1) Employees who are age 55 or older with 7, 8 or 9 years of creditable service will be granted 1, 2 or 3 years of service thus becoming eligible for retirement. It is estimated that 734 individuals are eligible for this benefit and that 367 will participate.
- (2) Employees who are under age 55 with 15-29 years of service will be granted a benefit based on a percentage of salary established according to creditable service. It is estimated that 6,117 individuals are eligible for this benefit and that 3,059 will participate.
- (3) Employees who are over age 55 with 10 or more years of service will be granted an additional two years of service and a payment of \$150 per year of creditable service paid over the next two fiscal years (up to a maximum per employee of \$3,000). It is estimated that 5,127 individuals are eligible for this benefit and that 3,845 will participate.

It is estimated that this program, if it is established, implemented and completed by September 1, 1991, would result in 7,271 retirements and that potential savings in Fiscal 1992 could be as much as \$46,576,209, provided no more than ten per cent of the vacated positions are filled.

In developing this proposal, great emphasis has been placed on the accuracy of various projections. The experience in several other states which have established early retirement programs has often led to an increase in overall expenditure. Consequently, limits have been placed on those who may participate in the early retirement program. Essentially, the program is available to employees who are paid directly from state funds and who hold positions which are classified in Group 1 for retirement purposes. Group 1 consists of general employees including clerical, administrative and technical workers. Judges, mental retardation workers and any employee whose position is the subject of a consent decree may not participate due to the critical nature of their occupation and the inability to limit the filling of their positions upon vacancy. In addition, employees paid from federal funds or from trust funds may not participate since payroll savings to the Commonwealth will not be realized in such cases.

The Administration intends to explore various early retirement options for employees not eligible to participate in the program submitted today. This is particularly true of employees paid through the Human Resources Management Information System (HRMS) which primarily includes employees of the University of Massachusetts, and employees who hold positions classified in Group 2 for retirement purposes, primarily those whose duties require them to have the care, custody or supervision of prisoners, or the mentally ill. More data is necessary before reliable estimates can be developed regarding HRMS employees and, due to the nature of the duties involved, it is likely that the need to fill Group 2 positions will be more pressing than the positions eligible under this proposal.

Finally, there may be an additional need to develop an Early Retirement Program in FY-92 for Group 2 employees and others after the Administration completes its work on facility consolidation and closure.

It is our hope that this Early Retirement Incentive Program will be approved as soon as possible so that the goal of enhancing retirement benefits for employees and achieving savings can be met.

Respectfully submitted,

William F. Weld

William F. Weld
Governor

Argeo Paul Cellucci
Argeo Paul Cellucci
Lieutenant Governor

EARLY RETIREMENT PROGRAM

Several general principles must be adhered to if an Early Retirement Program is to achieve savings. By definition, such a program will increase retirement costs. Consequently, it is imperative that payroll savings be maximized. The key to maximizing payroll savings is restraint in filling positions made vacant by retirements.

Any Early Retirement Program must recognize the unique aspects of Massachusetts Retirement Law. A variety of benefits are made available under Chapter 32. This requires that a program include incentive for several categories of employees who may be eligible for certain benefits or who may become eligible under such a program.

The Office of Management Information Systems (OMIS) has prepared extensive analysis of the potential impact of the proposed Early Retirement Incentive Program. The effort resulted in a complete analysis regarding those employees who are paid on the Personnel Management Information System (P.M.I.S.), which consists primarily of Executive Branch employees, however, incomplete information prevented such an analysis of those paid on the Commonwealth Automated Payroll System (CAPS), which consists primarily of employees of Constitutional Officers, and the Human Resources Management Information System (HRMS), which consists primarily of employees of the University of Massachusetts. In the case of CAPS incomplete information exists due to no access to accrued sick leave and vacation time. HRMS does not contain service information or accrued sick leave and vacation data.

As a result we are confident in the analysis based on PMIS. That based on CAPS although not 100% accurate is, in our view, sufficient to make an accurate assessment of impact. However, the HRMS data is such that proceeding with the Early Retirement Incentive Program for those employees risks results which are not predictable.

Consequently, it is suggested that the Early Retirement Incentive Program be limited to those employees who received compensation through the PMIS system and the CAPS system until such time as more data is available for those paid through HRMS.

In addition to limiting the program to CAPS and PMIS employees, the legislation should limit participants to those not yet eligible for the maximum retirement benefits. Essentially, this would preclude any individual receiving more than 80% of salary in pension payments.

Thus, those presently at 80% would not be eligible for the program and those below 80% may not receive an amount greater than 80% through application of the incentive. This 80% limit was applied in developing the expected impact of Incentive #3.

This report has eliminated from consideration all employees whose compensation is paid out of Federal grant or trust fund accounts. It includes those employees paid out of budget and capital accounts, as well as those who are paid from unknown accounts.

PERA has developed estimates of sick leave and vacation costs for CAPS employees based on the actual experience of PMIS employees.

PERA has estimated the number of Group 2 employees eligible for incentives and removed them from consideration as noted.

All data compilation and analysis was coded to maintain the confidentiality of employees. No individual was identified by name throughout the process.

Finally, it should be stressed that Group Insurance costs have not been factored into this analysis. Retirees are eligible for those benefits. Again, replacement rates are crucial as insurance costs for active employees would be reduced due to retirements until positions vacated are filled.

Summary

** 3 Incentives*

- (1) 7, 8 or 9 years of service, over 55, granted 1, 2 or 3 years of service thus becoming eligible for retirement — no limit on participants — 734 eligible, 367 participants anticipated, \$4,329,442 savings at 10% rehire rate.
- (2) 15-29 years of service under 55, granted benefit based on percentage of salary for years of service — 6,117 eligible, participation limited to 4,250 (subject to A&F increase), 3,059 estimated, \$32,046,442 savings at 10% rehire rate.
- (3) Over 55, 10 years or more of service, granted 2 years of service and \$150 per year of service paid over 2 years (up to a maximum of \$3,000.) — 5,127 eligible, participation limited to 4,250 (subject to A&F increase), 3,845 participants estimated, \$10,200,325 savings at 10% rehire rate.

** Total*

11,978	eligible
7,271	estimated participants
\$46,576,209	savings at 10% rehire rate

* *Eligibility*

- (1) Federal Grant, Trust Fund Employees not eligible.
- (2) Employees paid on HRMS System not eligible.
- (3) Judges are not eligible.
- (4) Employees who may receive 80% of salary are not eligible.
- (5) Limited to Group 1 employees.
- (6) Mental Retardation Workers and any employee who is the subject of a consent decree are not eligible.

* *Period*

- (1) July 1 - Sept. 1 with A&F authority to extend 30 days.

INCENTIVE #1: *Eligibility Grant*

In order for an employee to receive retirement benefits he or she must have 10 years of service. An employee may collect an allowance at age 55. It is proposed that those employees who are age 55 or older and who have achieved 7-9 years of service be granted a maximum of three years creditable service to enable them to retire.

a) 55 or over

b) 7-9 years of service

grant maximum of three years of eligible service thus enabling a person to retire.

INCENTIVE #2: *Eligibility Grant*

For employees who are under 55 years of age and have achieved between 15 and 29 years of creditable service, it is proposed to grant these individuals a benefit based on percentage of salary as follows:

<u>Years of Service</u>	<u>Percentage of 3-Year Average Plus Annuity</u>
15	21%
16	22%
17	23%
18	24%
19	25%
20	26%
21	27%
22	28%
23	29%
24	30%
25	31%
26	32%
27-29	33%

INCENTIVE #3: *Enhanced Benefit*

Employees who are presently over age 55 and are eligible for retirement benefits represents the group that would have the highest participation rate due to a retirement incentive. The following incentive is proposed:

Two years of creditable service

\$150 per year of creditable service to a maximum of \$3,000 to be paid — 50% in FY1992 and FY1993.

EARLY RETIREMENT INCENTIVES (if retirement occurs on July 1)

	INCENTIVE #1	INCENTIVE #2	INCENTIVE #3	TOTAL
Total Eligible	1,096	9,130	7,652	17,878
Percent of those eligible taking incentive	50%	50%	75%	
Number of Retirees	548	4,565	5,739	10,852
Payroll Savings	\$14,040,255	\$154,409,300	\$145,621,348	\$314,070,902
Retirement Cost	2,515,647	39,600,565	67,666,815	109,783,026
Sick-leave Buy Back	551,966	12,017,946	10,810,948	23,380,859
Vacation Buy-Back	1,419,999	22,958,048	22,432,910	46,810,957
Net Savings Annualized	9,273,127	79,832,742	42,033,090	131,138,959
RE-HIRE IMPACT				
Net Savings if 100% rehired	(4,487,611)	(74,576,558)	(100,910,673)	(179,974,842)
Net Savings if 75% rehired	(977,548)	(35,974,233)	(64,505,336)	(101,457,117)
Net Savings if 50% rehired	2,532,516	2,628,092	(28,099,999)	(22,939,391)
Net Savings if 25% rehired	6,042,580	41,230,417	8,305,338	55,578,334
Net Savings if 10% rehired	8,148,618	64,391,812	30,148,540	102,688,970
Group 2 Eliminated (Est.)				
Total eligible	734	6,117	5,127	11,978
Number of Retirees	367	3,059	3,845	7,271
Payroll Savings	\$9,406,971	\$103,454,231	\$97,566,303	\$210,427,504
Retirement Cost	1,685,483	26,532,378	45,336,766	73,554,627
Sick Leave Buy-Back	369,817	8,052,023	7,243,335	15,665,176
Vacation Buy-Back	951,399	15,381,892	15,030,050	31,363,341
Net Savings Annualized	6,212,995	53,487,937	28,162,170	87,863,102

RE-HIRE IMPACT

Net Savings if 100% rehired	(3,006,700)	(49,966,294)	(67,610,151)	(120,583,144)
Net Savings if 75% rehired	(654,957)	(24,102,736)	(43,218,575)	(67,976,268)
Net Savings if 50% rehired	1,696,786	1,760,821	(18,826,999)	(15,369,392)
Net Savings if 25% rehired	4,048,528	27,624,379	5,564,576	37,237,484
Net Savings if 10% rehired	5,459,574	43,142,514	20,199,522	68,801,610

EARLY RETIREMENT INCENTIVES (if retirement occurs on Sept. 1)

	INCENTIVE #1	INCENTIVE #2	INCENTIVE #3	TOTAL
Total Eligible	1,096	9,130	7,652	17,878
Percent of those eligible taking incentive	50%	50%	75%	
Number of Retirees	548	4,565	5,739	10,852
Payroll Savings	\$11,700,212	\$128,674,416	\$115,306,623	\$255,681,251
Retirement Cost	2,096,372	33,000,470	48,994,837	84,091,680
Cash bonus	0	0	6,312,900	6,312,900
Sick-leave Buy Back	551,966	12,017,946	10,810,948	23,380,859
Vacation Buy-Back	1,419,999	22,958,048	22,432,910	46,810,957
Net Savings Annualized	7,398,945	60,697,952	32,465,007	100,561,904

RE-HIRE IMPACT

Net Savings if 100% rehired	(4,068,337)	(67,976,464)	(88,551,595)	(160,596,396)
Net Savings if 75% rehired	(1,143,284)	(35,807,860)	(59,724,940)	(96,676,083)
Net Savings if 50% rehired	1,781,769	(3,639,256)	(30,898,284)	(32,755,770)
Net Savings if 25% rehired	4,706,822	28,529,348	(2,071,628)	31,164,543
Net Savings if 10% rehired	6,461,854	47,830,511	15,224,366	69,516,730

Group 2 Eliminated (Est.)

Total eligible	734	6,117	5,127	11,978
Number of Retirees	367	3,059	3,845	7,271
Payroll Savings	\$7,839,142	\$86,211,859	\$77,255,437	\$171,306,438
Retirement Cost	1,404,569	22,110,315	32,826,541	56,341,426
Cash bonus	0	0	4,229,643	4,229,643
Sick Leave Buy-Back	369,817	8,052,023	7,243,335	15,665,176
Vacation Buy-Back	951,399	15,381,892	15,030,050	31,363,341
Net Savings Annualized	4,957,293	40,667,628	21,751,555	67,376,476

RE-HIRE IMPACT

Net Savings if 100% rehired	(2,725,786)	(45,544,231)	(59,329,569)	(107,599,585)
Net Savings if 75% rehired	(766,000)	(23,991,266)	(40,015,709)	(64,772,976)
Net Savings if 50% rehired	1,193,785	(2,438,301)	(20,701,850)	(21,946,366)
Net Savings if 25% rehired	3,153,571	19,114,663	(1,387,991)	20,880,244
Net Savings if 10% rehired	4,329,442	32,046,442	10,200,325	46,575,209

EARLY RETIREMENT INCENTIVES (if retirement occurs on Oct. 1)

	INCENTIVE #1	INCENTIVE #2	INCENTIVE #3	TOTAL
Total Eligible	1,096	9,130	7,652	17,878
Percent of those eligible taking incentive	50%	50%	75%	
Number of Retirees	548	4,565	5,739	10,852
Payroll Savings	\$10,530,191	\$115,806,975	\$100,149,261	\$226,486,426
Retirement Cost	1,886,735	29,700,423	42,499,654	74,086,812
Cash bonus	0	0	6,312,900	6,312,900

Sick-leave Buy Back	551,966	12,017,946	10,810,948	23,380,859
Vacation Buy-Back	1,419,999	22,958,048	22,432,910	46,810,957
Net Savings Annualized	6,461,854	51,130,558	24,524,516	82,116,927

RE-HIRE IMPACT

Net Savings if 100% rehired	(3,858,700)	(64,676,417)	(82,056,412)	(150,591,528)
Net Savings if 75% rehired	(1,226,152)	(35,724,673)	(57,019,096)	(93,969,921)
Net Savings if 50% rehired	1,406,396	(6,772,930)	(31,981,781)	(37,348,315)
Net Savings if 25% rehired	4,038,944	22,178,814	(6,944,466)	19,273,292
Net Savings if 10% rehired	5,618,472	39,549,860	8,077,923	53,246,256

Group 2 Eliminated (Est.)

Total eligible	734	6,117	5,127	11,978
Number of Retirees	367	3,059	3,845	7,271
Payroll Savings	\$7,055,228	\$77,590,673	\$67,100,005	\$151,745,906
Retirement Cost	1,264,112	19,899,284	28,474,768	49,638,164
Cash bonus	0	0	4,229,643	4,229,643
Sick Leave Buy-Back	369,817	8,052,023	7,243,335	15,665,176
Vacation Buy-Back	951,399	15,381,892	15,030,050	31,363,341
Net Savings Annualized	4,329,442	34,257,474	16,431,425	55,018,341

RE-HIRE IMPACT

Net Savings if 100% rehired	(2,585,329)	(43,333,199)	(54,977,796)	(100,896,324)
Net Savings if 75% rehired	(821,522)	(23,935,531)	(38,202,795)	(62,959,847)
Net Savings if 50% rehired	942,285	(4,537,863)	(21,427,793)	(25,023,371)
Net Savings if 25% rehired	2,706,092	14,859,805	(4,652,792)	12,913,105
Net Savings if 10% rehired	3,764,376	26,498,406	5,412,209	35,674,991

EARLY RETIREMENT INCENTIVES (if retirement occurs on Nov. 1)

	INCENTIVE #1	INCENTIVE #2	INCENTIVE #3	TOTAL
Total Eligible	1,096	9,130	7,652	17,878
Percent of those eligible taking incentive	35%		75%	
Number of Retirees	548	4,565	5,739	10,852
Payroll Savings	\$9,360,170	\$102,939,533	\$84,991,899	\$197,291,601
Retirement Cost	1,677,098	26,400,376	36,004,470	64,081,944
Cash bonus	0	0	6,312,900	6,312,900
Sick-leave Buy Back	551,966	12,017,946	10,810,948	23,380,859
Vacation Buy-Back	1,419,999	22,958,048	22,432,910	46,810,957
Net Savings Annualized	5,524,763	41,563,163	16,584,024	63,671,950

RE-HIRE IMPACT

Net Savings if 100% rehired	(3,649,062)	(61,376,370)	(75,561,228)	(140,586,660)
Net Savings if 75% rehired	(1,309,020)	(35,641,487)	(54,313,253)	(91,263,760)
Net Savings if 50% rehired	1,031,023	(9,906,603)	(33,065,279)	(41,940,859)
Net Savings if 25% rehired	3,371,065	15,828,280	(11,817,304)	7,382,041
Net Savings if 10% rehired	4,775,090	31,269,210	931,481	36,975,781

Group 2 Eliminated (Est.)

Total eligible	734	6,117	5,127	11,978
Number of Retirees	367	3,059	3,845	7,271
Payroll Savings	\$6,271,314	\$68,969,487	\$56,944,572	\$132,185,373
Retirement Cost	1,123,656	17,688,252	24,122,995	42,934,902

Cash bonus	0	4,229,643	4,229,643
Sick Leave Buy-Back	369,817	7,243,335	15,665,176
Vacation Buy-Back	951,399	15,030,050	31,363,341
Net Savings Annualized	3,701,591	11,111,296	42,660,207
RE-HIRE IMPACT			
Net Savings if 100% rehired	(2,444,872)	(50,626,023)	(94,193,062)
Net Savings if 75% rehired	(877,043)	(36,389,880)	(61,146,719)
Net Savings if 50% rehired	690,785	(22,153,737)	(28,100,376)
Net Savings if 25% rehired	2,258,614	(7,917,594)	4,945,967
Net Savings if 10% rehired	3,199,311	624,092	24,773,773

This analysis has reviewed the impact timing of participation in the program will have on potential savings. Total savings if the program were completed on July 1 are \$68,801,610. If the program is complete as of September 1 savings are \$46,576,209; on October 1, \$35,674,991; and on November 1, \$24,773,773. It should be noted that each month's delay in completion of the program significantly reduces potential savings. In fact, if the program were not complete until January 1992, it would result in a financial loss.

As has been indicated, the essential determinant of savings is the rehire rate. Based upon a closing date of September 1, total FY92 savings will equal \$46,576,209 at a re-hire rate of 10%.

Limits have been placed on the number of individuals who may be granted early retirement. The basis for these limits is an assessment of the ability of state government to provide services efficiently following these retirements. No limit is placed on eligibility for Incentive #1 as there are only 734 employees eligible throughout government and no substantial concentration of these employees in any single agency exists. Participation in Incentive #2 and Incentive #3 is limited to 4,250 in each instance. The effect of these limitations is to provide that 9,234 of the 11,978 eligible employees will be able to retire. This limit is subject to increase by the Secretary of Administration and Finance.

The number of eligible employees may be increased due to buy-backs. OMIS was unable to determine past service patterns of employees. Consequently, employees who may have past service which when added to state service would establish eligibility are not included in the total of 11,978.

EARLY RETIREMENT PROGRAM IMPLEMENTATION

Effective Date of Act through Sept. 1.

- * Information packets provided to employees.
- * Retirement applications available at State Retirement Board.
- * Applications may be accepted and processed by State Retirement Board.
- * State Retirement Board records application and keeps record including all financial information.
- * State Retirement Board provides A & F with a daily count of those participating in the program broken down according to incentive.

- * A & F monitors participation rates to determine if caps should be increased or program length extended.

July 1 through Sept. 1.

- * Retirements become effective.

The Commonwealth of Massachusetts

In the Year One Thousand Nine Hundred and Ninety-One.

1 SECTION 1. Notwithstanding any provisions of chapter
2 thirty-two or any other general or special law to the contrary, there
3 shall be an early retirement incentive program administered by
4 the state board of retirement which shall be subject to the
5 constraints as set forth herein.

6 (a) The program shall apply to eligible employees who make
7 application on or after the effective date of this act, provided that
8 said application sets forth a retirement date on or before
9 September first, nineteen hundred and ninety-one and provided,
10 further, that the Secretary of Administration and Finance may
11 extend the program for one month by filing notice thereof with
12 the House and Senate Committees on Ways and Means.

13 (b) The program shall apply only to those active members of
14 the state employees' retirement system whose salary is paid from
15 state funds and who are classified in group one as defined in
16 section three of chapter thirty-two provided, however, that judges
17 and any member who holds a position which is the subject of a
18 consent decree shall not be eligible to participate.

19 (c) Any active member who meets the eligibility requirements
20 of paragraph (b) who is paid on the Personnel Management
21 Information System or the Commonwealth Automated Payroll
22 System shall be eligible to participate and no employee shall
23 receive a retirement allowance or retirement allowance plus
24 payment which provides for a sum equal to or greater than eighty
25 per cent of average annual rate of compensation as determined
26 pursuant to section five of chapter thirty-two. No member may
27 be eligible for more than one of the incentives established by this
28 act and no member may become eligible for one incentive by virtue
29 of the application of a different incentive.

1 SECTION 2. Any active member who meets the eligibility
2 requirements of section one may upon the effective date of this
3 act make application for retirement and shall receive a retirement
4 benefit computed according to the following table based on the

5 number of years and full months of creditable service at the time
6 of retirement:

<u>Number of Years of Creditable Service</u>	<u>Percentage of Amount of Average Annual Rate of Regular Compensation</u>
15	21%
16	22%
17	23%
18	24%
19	25%
20	26%
21	27%
22	28%
23	29%
24	30%
25	31%
26	32%
27	33%
28	33%
29	33%

7 The regular compensation on which the benefit is based shall
8 be determined in accordance with the provisions of paragraph (a)
9 of subdivision two of section five of chapter thirty-two. In addition
10 to the benefit outlined above, the retiree shall receive his annuity
11 as determined pursuant to the provisions of subdivision two of
12 section twelve of chapter thirty-two.

13 No more than four thousand two hundred and fifty members
14 shall receive the benefit established by this section provided,
15 however, that the Secretary of Administration and Finance may
16 increase that number by filing notice thereof with the House and
17 Senate Committees on Ways and Means.

1 SECTION 3. Any active member who meets the eligibility
2 requirements of section one and who is age fifty-five or older and
3 who has been credited with seven, eight, or nine years of service
4 may, upon the effective date of this act, make application for
5 retirement and shall be credited with three, two or one years of

6 service whichever is necessary to establish eligibility under
7 paragraph (m) of subdivision (1) of section five of chapter thirty-
8 two.

1 SECTION 4. Any active member who meets the eligibility
2 requirements of section one and who is age fifty-five or older and
3 has at least ten years of creditable service at the time he makes
4 application for retirement, shall be credited with two years of
5 additional service and shall receive one hundred and fifty dollars
6 for each year of creditable service based on the number of years
7 and full months of creditable service at the time of retirement
8 provided that no member shall receive more than three thousand
9 dollars in total and provided further that payment shall be made
10 in two equal sums in fiscal year nineteen hundred and ninety-two
11 and fiscal year nineteen hundred and ninety-three. No more than
12 four thousand two hundred and fifty members shall receive the
13 benefits provided by this section, provided, however, that the
14 Secretary of Administration and Finance may increase that
15 number by filing notice thereof with the House and Senate
16 Committees on Ways and Means.

